

Testimony before the Congressional Anti-Terrorist Finance Task Force

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Acting Majority Leader Blunt, Congresswoman Kelly, Congresswoman Maloney, thank you for the opportunity to speak with you today about Saudi Arabia's role in terrorist financing.

As you may know I have just completed a manuscript, *Thicker than Oil: America's Uneasy Partnership with Saudi Arabia*, which chronicles the U.S.-Saudi bilateral relationship from 1945 to the present. The subject of this hearing is therefore of particular interest to me. Although the Council on Foreign Relations and the Carnegie Corporation of New York made my research possible, I bear sole responsibility for my remarks.

What I will suggest to you today is that Saudi Arabia has made significant strides in reducing its role in terrorist financing and the financing of radical groups. I will then identify two specific areas where their efforts leave room for improvement and where the United States should continue to focus its attention. I will then outline the role that Congress can usefully play in this process. I will conclude by sketching future trends that may undermine current Saudi efforts.

Since the May 2003 simultaneous bombings in Riyadh, the Saudi royal family has acknowledged that it is directly threatened by radical terrorist cells. Some members of the royal family realized this earlier. But it was not until the 2003 attacks that others, including the very powerful Interior Minister Prince Naif, fully recognized the threat that such cells posed to the regime itself and the futility of pursuing a strategy based on accommodation.

Since 2003, the kingdom has taken important strides towards cracking down on homegrown terrorist cells and reducing the flow of funds towards radical groups both inside and outside the kingdom. These measures include:

- Stripping charity boxes from malls and mosques, something one former U.S. ambassador to Saudi Arabia has likened to banning the collection plate at Sunday mass.
- Shutting down or reorganizing Saudi domestic charities to improve transparency and facilitate governmental oversight. In 2004, American officials estimated that Saudi domestic charitable giving increased 300%, a fact attributable in part to a redirection of international donations.
- Instituting a battery of new laws to better comply with international standards. In July 2004 the Financial Action Task Force, an OECD

organization devoted to combating money laundering and terrorist financing, judged that the kingdom was “compliant or largely compliant” with international standards in almost every indicator of effectiveness.

- Acknowledging the problem at the highest level. Perhaps the most important development in Saudi Arabia’s overall ability to address the problem of domestic terrorism has been Abdullah’s ascension from Crown Prince to King after the passing of King Fahd in August 2005. Although he is no Jeffersonian democrat, and does not claim to be, King Abdullah appears well aware that economic, political, and social reform is necessary, if only to further secure the rule of his family.

Still, there are groups and individuals that continue to support financially radical cells abroad. One disconcerting observation is that despite increased barriers for moving money, Saudi funds continue to find their way to causes at odds with U.S. interests. For example, in his July 2005 testimony before the Senate Committee on Banking, Housing, and Urban Affairs, Under Secretary of the Treasury Stuart Levey testified that “even today, we believe that Saudi donors may still be a significant source of terrorist financing, including for the insurgency in Iraq.”

Of particular concern is Saudi Arabia's decision to designate wealthy global Islamic institutions based in the kingdom -- such as the Muslim World League, the World Assembly of Muslim Youth and the International Islamic Relief Organization -- as "multilateral organizations," rather than charities. The Kingdom is slowly standing up a Financial Intelligence Unit (FIU) to address this problem. But the FIU is not yet functioning and therefore has not extended its influence over these institutions. Until this definitional loophole is closed, Americans will have every reason to believe that the kingdom is not doing all that it can to prevent the flow of funds from leaving its borders.

Another major challenge, in addition to the one of reigning in multilateral organizations, is the persistence of Islamic Affairs Departments that continue to operate within Saudi embassies abroad. These departments are proselytizing agencies and are hardly consistent with normal definitions of diplomatic offices. Although Riyadh has closed these departments in the United States and Germany, they continue to operate and proselytize elsewhere. This is not in America's interests and Washington should push for them to be closed down.

Members of this committee should be under no illusions that reigning in multilateral institutions and closing Islamic Affairs Departments will be an easy task for Saudi decision makers. Such institutions were built over

decades and often served a political purpose such as “fighting godless communism” or staunching the influence of Egypt’s President Gamal Abdel Nasser, which the United States supported. Their history is deep and uprooting such institutions will be politically costly. Still it is vital that the U.S. government work with the Saudi government to ensure progress on these fronts.

And it is here that I commend the efforts of this task force. This task force’s work keeps the spotlight on the issue of terrorist financing and makes it clear to Riyadh that this issue is of utmost importance not only to the administration, but the American people as well.

What is less helpful is the vitriolic anti-Saudi bashing that continues to permeate the American political debate. For example, a letter circulated among congressmen and women in May 2005 calling Saudi Arabia’s accession to the World Trade Organization “premature” was particularly short-sighted, as WTO accession will help those in the kingdom who tend to be the strongest supporters of the United States. Legislation to withhold from the Saudis a paltry \$25,000 for military training also poorly serves U.S. interests as the lack of that money would keep the United States Military from working with counterparts in the kingdom who ultimately will be responsible for fighting terror at home and abroad. Not only are such initiatives poorly thought through, but they are

counter-productive. While these measures may play well with constituents back home, they have the potential to distract the White House from the very important issue of terrorist financing. The result has tended to be a U.S. complacency -- a continuation of the status quo -- toward the kingdom, rather than a focused effort to redefine this troubled relationship.

Notwithstanding the problems I outlined above, it is important to reiterate that since the May 2003 bombings, the general trend lines regarding Saudi Arabia's willingness to track and deter finances leaving the kingdom have been moving in the right direction. Coming problems could undue them. First, high oil prices provide a new set of opportunities and challenges. On the positive side, Saudi Arabia's internal security budget topped \$7 billion in 2003 as a result of increased profits. In 2004 this budget grew to an estimated \$8 – \$8.5 billion, with a virtually open-ended capability to spend on any internal security purpose. On the negative side, the fact that there is now more money in the system increases the likelihood that it will leak across borders. Vigilance by both American and Saudi leaders is necessary.

Instability in Iraq will also provide reasons for some in the kingdom to fund questionable people and causes. Inside Saudi Arabia there is fear of the rising influence of Iraq's Shi'a population and its influence over Shi'a

populations across the region. Although the Saudi government appears less agitated about a Shi'a government in Iraq than a radical Shi'a government in Iraq inspired by Iran, concern about the situation on Saudi Arabia's border rises to the highest political levels. At the Council on Foreign Relations in September 2005, Foreign Minister Saud al Faisal stated that the United States and Saudi Arabia "fought a war together to keep Iran from occupying Iraq after Iraq was driven out of Kuwait. Now we are handing the whole country over to Iran without reason." A fear of rising Shi'a power in Iraq will undoubtedly inspire some in the kingdom to look for Sunni regional allies. One senior Pakistani official mentioned in an off-the-record conversation his fears that this was already occurring as he perceived increased Saudi funding to particularly worrisome mosques and madrassas.

There are few political issues more important than Saudi Arabia's role in terrorist financing, and the financing of extremism. The good news is that the kingdom, independently and in cooperation with the United States, has made great strides toward dealing with the problem. Still, success in this effort requires constant attention, a fact to which this committee clearly subscribes.